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HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC
FINANCIAL STATEMENTS
DECEMBER 31, 2002

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **JUL 30 2003**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat for Humanity of Greater Baton Rouge, Inc.

I have audited the accompanying statement of financial position of Habitat for Humanity of Greater Baton Rouge, Inc., as of December 31, 2002, and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of Habitat for Humanity of Greater Baton Rouge, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Greater Baton Rouge, Inc., as of December 31, 2002, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 16, 2003, on my consideration of Habitat for Humanity of Greater Baton Rouge, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.



May 16, 2003

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2002

ASSETS

Current Assets

Cash	\$ 214,000
Non interest bearing mortgages receivable	148,435
Less discount	(69,138)
Receivables for escrow shortages	15,629
Non interest bearing promissory notes receivable	2,541
Building supplies	3,921
Other current receivables	3,797
Inventory of homes	<u>310,939</u>
	<u>630,124</u>

Property and Equipment

Office equipment	7,495
Construction equipment	9,497
Less accumulated depreciation	<u>(4,566)</u>
	<u>12,426</u>

Other Assets

Non interest bearing mortgages receivable	1,912,255
Less discount	(876,365)
Non interest bearing promissory notes receivable	2,503
Land held for development	<u>246,749</u>
	<u>1,285,142</u>

Total Assets	<u>\$ 1,927,692</u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 680
Escrow deposits	25,500
Revolving line of credit	43,235
Current portion of capital lease	<u>1,079</u>
	<u>70,494</u>

Long Term Liabilities

Forgivable development loan	110,000
Capital lease	5,482
Less current portion of capital lease	<u>(1,079)</u>
	<u>114,403</u>

Total Liabilities	<u>184,897</u>
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Net Assets

Unrestricted	1,714,189
Temporarily restricted	<u>28,606</u>

Total Net Assets	<u>1,742,795</u>
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Total Liabilities and Net Assets	<u>\$ 1,927,692</u>
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The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2002

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 124,829	\$ 477,817	\$ 602,646
Contributed services & materials	184,800		184,800
Contributed land	52,140		52,140
Microenterprise Grant		36,823	36,823
Amortization of discount on mortgage loans	69,648		69,648
Transfers to homeowners for mortgage loans	955,450		955,450
LA Department of Natural Resources rebate	24,816		24,816
Sales of property, net of cost of \$3,500	5,000		5,000
Interest income	2,387		2,387
Special events, net	3,278		3,278
Other	6,255		6,255
Net assets released from restriction	<u>544,994</u>	<u>(544,994)</u>	<u>-0-</u>
 Total Support and Revenue	 <u>1,973,597</u>	 <u>(30,354)</u>	 <u>1,943,243</u>
 EXPENSES			
Program services:			
Construction	1,333,993		1,333,993
Mortgage originations	361,947		361,947
Microenterprise grant	36,827		36,827
Supporting services:			
Management & general	61,240		61,240
Fund-raising	<u>21,845</u>	<u> </u>	<u>21,845</u>
 Total Expenses	 <u>1,815,852</u>	 <u> </u>	 <u>1,815,852</u>
 Changes in Net Assets	 157,745	 (30,354)	 127,391
 Net Assets:			
Beginning of Year	<u>1,556,444</u>	<u>58,960</u>	<u>1,615,404</u>
 End of Year	 <u>\$1,714,189</u>	 <u>\$ 28,606</u>	 <u>\$1,742,795</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 127,391
Adjustments to reconcile increase in net assets to net cash used by operating activities:	
Depreciation	3,595
Gain on sale of property	(5,000)
Donated land	(52,140)
Land transferred	106,141
Transfers to homeowners net of discounts	(593,503)
Amortization of mortgage discount	(69,648)
Increase in receivables from escrow shortage	(15,629)
Increase in building supplies	(3,921)
Increase in other current receivables	(3,797)
Decrease in inventory of homes under construction	243,159
Increase in accounts payable	(9,242)
Increase in escrow deposits	(8,174)
Decrease in payroll taxes payable	(516)
Net cash used by operating activities	(281,284)

CASH FLOWS FROM INVESTING ACTIVITIES

Collections on mortgage receivables	299,515
Purchase of equipment	(4,265)
Purchase of land	(58,206)
Increase in promissory notes receivable	(6,769)
Payments received on promissory notes	1,725
Proceeds from sale of land & building	8,500
Net cash provided by investing activities	240,500

CASH FLOWS FROM FINANCING ACTIVITIES

Short-term borrowings	43,235
Payments on capital lease	(666)
Net cash provided by financing activities	42,569

Net increase in cash 1,785

Cash at beginning of year 212,215

Cash at end of year \$ 214,000

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2002

	PROGRAM SERVICES			SUPPORT SERVICES			TOTAL
	Construction	Mortgage Originations	Microenterprise Grant	Total	Management & General	Fund-Raising	Total
Cost of home transferred							
Materials, supplies & labor	\$ 1,053,259	\$	\$	\$ 1,053,259	\$	\$	\$ 1,053,259
Contributed services & materials	184,800			184,800			184,800
Mortgage discounts		361,947		361,947			361,947
Salaries and payroll taxes	19,459		4,000	23,459	36,198	10,242	69,899
Health insurance	3,444			3,444	3,501	1,050	7,995
Milage	5,152		178	5,330		-0-	5,330
Miscellaneous	2,147			2,147	229	1,436	3,812
Office supplies	3,775			3,775	1,616	1,588	6,979
Printing & postage	9,637			9,637	6,099	5,280	21,016
Professional fees	2,432			2,432	5,002	334	7,768
Repairs, maintenance & small equipment	10,454			10,454	110	110	10,564
Telephone & fax	5,237			5,237	2,356	523	8,116
Training	5,469			5,469	958	958	6,427
Rent	4,650			4,650	4,275	950	9,875
Taxes & insurance	1,159			1,159	152	147	1,458
Depreciation	2,736			2,736	654	205	3,595
Subsidies to VISTA workers	2,995			2,995		-0-	2,995
LSU affiliate	1,552			1,552		-0-	1,552
Interest expense	636			636	90	90	816
Capital assistance			32,649	32,649		-0-	32,649
Tithe to National Organization	15,000			15,000		-0-	15,000
	<u>\$ 1,333,993</u>	<u>\$ 361,947</u>	<u>\$ 36,827</u>	<u>\$ 1,732,767</u>	<u>\$ 61,240</u>	<u>\$ 21,845</u>	<u>\$ 1,815,852</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. Summary of Significant Accounting Policies

ORGANIZATION AND PURPOSE

Habitat for Humanity of Greater Baton Rouge, Inc. ("Habitat") is a non-profit organization incorporated in 1988, with offices in Baton Rouge, Louisiana, and operations in four Louisiana parishes. Habitat is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations. The accompanying financial statement includes the activities of the Campus Chapter of Habitat for Humanity at LSU affiliate.

INCOME TAX STATUS

Habitat has received exemption from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat International.

BASIS OF ACCOUNTING

Habitat prepares its financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

BASIS OF PRESENTATION

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, Habitat is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Habitat currently has no permanently restricted net assets. In addition, Habitat is required to present a statement of cash flows.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that can affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. Summary of Significant Accounting Policies - (continued)

REVENUE RECOGNITION

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When the donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Transfers to homeowners are recorded when a home is occupied and title is transferred. The transfer is recorded at the gross amount of payments to be received over the lives of the mortgages. Non-interest bearing mortgages have been discounted, ranging from 6% to 9%, based upon prevailing market rates at the inception of the mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages.

Habitat also executes a second or third mortgage depending on the applicability of the "Home Program" (see Note 7) with homeowners upon transfer of the home. The amount of these mortgages is approximately equal to the difference between the sales price and the fair market value of the home. These mortgages bear no interest and the homeowner is discharged from its annual payment so long as they are not in default on the first mortgage. No amount is included in the financial statements for these mortgages as collection is contingent upon future events and is generally unexpected and unintended.

The following is a summary of home building activity for 2002:

	<u>Number</u>	<u>Costs</u>
Occupied homes not closed and homes under construction, January 1, 2002	14	\$ 559,933
Additional costs incurred on beginning inventory		73,855
New homes started in 2002	14	730,410
Homes transferred in 2002	<u>(21)</u>	<u>(1,053,259)</u>
Occupied homes not closed and homes under construction, December 31, 2002	<u>7</u>	<u>\$ 310,939</u>

The inventory of homes at December 31, 2002, is valued at cost, and does not include the value of contributed labor.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. Summary of Significant Accounting Policies - (continued)

PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment are recorded at acquisition cost. Habitat capitalizes additions of property and equipment that exceed \$500. Depreciation expense is provided on a straight-line basis over the estimated useful lives of the respective assets, ranging from three to five years.

CONTRIBUTED SERVICES AND MATERIALS

Volunteers provide substantial services to Habitat. Services provided by volunteers building homes are measured either by the fair value of the services received or by the increase in value of the home, whichever is more objectively determinable. During 2002, \$158,500 in services and \$26,300 in donated materials were recognized on homes transferred. In addition, Habitat receives administrative and fund-raising services from volunteers. These services are not of a type permitted to be recognized in financial statements, thus no value is recorded.

RESERVED CASH

Habitat currently services the mortgages on the homes it sells. Included in reserved cash are amounts received from homeowners for insurance, property taxes and mortgage payments received prior to closing (escrow funds). Reserved cash at December 31, 2002 was \$25,500.

PROGRAM SERVICES

Program services include mortgage origination and the costs of homes constructed and transferred. Also, since homeowners are involved in building their own homes, family support and education activities are inherent in the construction activities. In 2002, Habitat received a grant to assist parents of needy families to start small businesses. Services included education, support and capital assistance.

2. Concentrations

Habitat builds and rehabilitates houses in the Baton Rouge area. As a result, all of the mortgages receivable from homeowners are concentrated as to geographic risk. Also, all houses built are transferred to low-income families, which can represent a credit risk.

Habitat maintains checking and savings accounts at two banks in Baton Rouge, Louisiana. The accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000 at each bank. The total uninsured balance at December 31, 2002, was \$88,751.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

3. Mortgages Receivable

Mortgages are considered delinquent and subject to foreclosure when three consecutive payments are missed. At December 31, 2002, foreclosure is being considered on four homes with total outstanding balances of \$20,397. Since the fair market values of these homes exceed the related mortgage balances, no allowance for uncollectible loans has been recorded.

4. Debt

REVOLVING LINE OF CREDIT

During 2002, Habitat obtained a one year, unsecured, \$50,000 revolving line of credit with interest payable monthly at a variable rate currently at 4.25%. The balance at December 31, 2002 was \$43,235 and is due on September 9, 2003.

FORGIVABLE DEVELOPMENT LOAN

Habitat received a \$110,000 forgivable loan from the City-Parish of East Baton Rouge to acquire property to develop affordable housing for low income households. The City-Parish received these funds from the United States government as a Community Development Block Grant. This loan bears no interest and will be forgiven when the homes developed are transferred to low income home owners. Construction of fifteen homes are required to be complete by December 31, 2004.

5. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of cash donated for the construction of new homes.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

6. Supplemental Cash Flow Information

CASH EQUIVALENTS

For purposes of cash flows, Habitat considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

SUPPLEMENTARY INFORMATION OF NONCASH ACTIVITIES

Noncash investing and financing transactions for 2002 consists of:

- Property with a purchase price of \$110,552 was primarily funded by a forgivable loan of \$110,000.
- A copier with a value of \$6,148 was financed with a capital lease.
- Non-interest bearing mortgage loans were issued for 21 homes as follows:

Non-interest bearing mortgage loans	\$ 955,450
Discount of non-interest bearing mortgage loans	<u>(361,947)</u>
Transfers to homeowners subject of non-interest mortgage loans, net of discount	<u>\$ 593,503</u>

ADDITIONAL CASH FLOW INFORMATION

No taxes were paid during 2002. Interest of \$816 was paid during the year.

7. Homebuyer Assistance Funds - Home Program

Beginning in 1999, new Habitat homeowners may qualify for Homebuyer Assistance Funds made available by the federally assisted HOME Program and administered through the East Baton Rouge Parish Office of Community Development. These funds, in the amount of \$10,000 per qualified homeowner for Habitat homes built in East Baton Rouge Parish, are paid to Habitat by the homeowner at the time of the mortgage closings and represent a zero percent interest, deferred second mortgage to the homeowner. The homeowner repays the remainder of the Habitat mortgage over the first 15.1 years of the 20 year mortgage to Habitat and then repays the \$10,000 second mortgage from the Homebuyer Assistance Program over the final 4.9 years to the East Baton Rouge Parish Office of Community Development. A grant of up to \$1,000 per homeowner was set aside by the Office of Community Development for closing cost assistance, not to exceed the actual home buyer closing costs.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

8. Transactions with Habitat International

Habitat annually remits a portion of its contributions to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the year ended December 31, 2002, Habitat contributed \$15,000 to Habitat International. That amount is included in program services expense in the statement activities.

9. Leases

CAPITAL LEASES

Habitat leases a copy machine under a capital lease. The economic substance of the lease is that Habitat is financing the acquisition of this asset through the lease, and accordingly, it is recorded in Habitat's assets and liabilities.

The following is an analysis of the leased asset included in Property and Equipment:

Office equipment	\$ 6,148
Less accumulated depreciation	<u>(820)</u>
	<u>\$ 5,328</u>

The lease agreement contains a bargain purchase option at the end of the lease term.

The following is a schedule by years of the future minimum payments required under the lease together with their present value as of December 31, 2002:

Year ending December 31,	
2003	\$ 1,539
2004	1,539
2005	1,539
2006	1,539
2007	<u>512</u>
Total minimum lease payments	6,668
Less amount representing interest	<u>(1,186)</u>
Present value of minimum lease payments	<u>\$ 5,482</u>

Amortization of assets held under capital leases is included with depreciation expense.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

9. Leases (continued)

OPERATING LEASES

Habitat leases space for administrative purposes under a non-cancelable operating lease. The term of the lease is for 24 months beginning June 1, 2001, and ending May 31, 2003.

Future minimum lease payments under operating leases as of December 31, 2002:

2003	\$ <u>5,400</u>
Total future minimum lease payments	\$ <u><u>5,400</u></u>

10. Related Party Transactions

The husband of a Habitat Board member is an owner of a construction company. Habitat occasionally uses this company's sub-contractors for home construction and reimburses the company for these costs. Habitat reimbursed \$17,021 to this company in 2002. No payments were due at December 31, 2002.

A Habitat Board member is a loan officer at the bank where Habitat obtained a revolving line of credit, as described in Note 4.

REPORT ON COMPLIANCE AND INTERNAL CONTROL

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Habitat for Humanity of Greater Baton Rouge, Inc.
Baton Rouge, Louisiana

I have audited the financial statements of the Habitat for Humanity of Greater Baton Rouge, Inc. as of and for the year ended December 31, 2002, and have issued my report thereon dated May 16, 2003. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

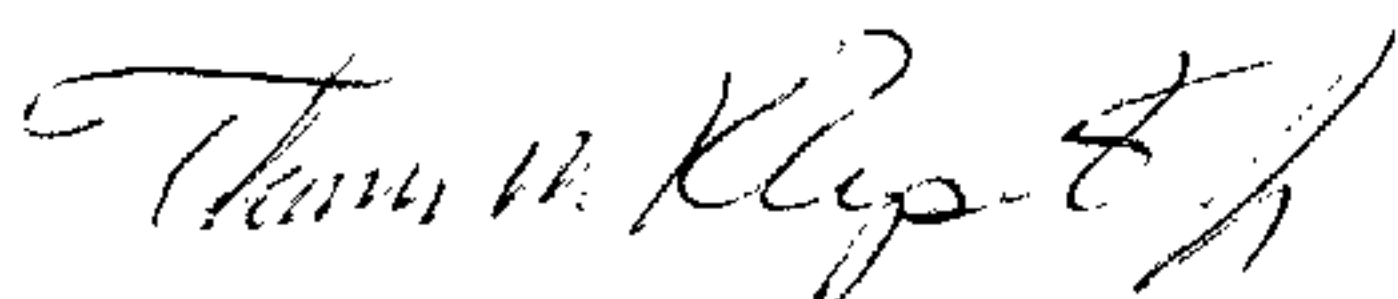
Compliance

As part of obtaining reasonable assurance about whether Habitat for Humanity of Greater Baton Rouge, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Habitat for Humanity of Greater Baton Rouge, Inc.'s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, and the Legislative Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



May 16, 2003